

KTL Global

Riding on strong growth and demand, rigging specialist plans Middle East expansion

BY KANG WAN CHERN |

As oil majors crank up the search for more offshore oil, the demand for offshore equipment ranging from oil rigs to support vessels and a host of highly specialised marine engineering equipment is also experiencing an upswing. One such company riding the boom is Mainboard-listed rigging and lifting equipment specialist KTL Global, which is doubling its production capacity to meet rising demand and expanding its presence in the Middle East by setting up a rigging facility in the UAE.

For the year ended June 30, 2008, KTL saw a 54% increase in earnings to \$6.3 million y-o-y, on the back of a 52% rise in revenue to \$63.4 million, while maintaining margins at about 35%. In FY2008, KTL sold a total of 7,500 tonnes of wire rope at US\$6,000 a tonne, up from US\$4,300 a tonne the year before, contributing up to 71% to top line.

Listed on the Mainboard last December, shares of KTL hit a high of 89.5 cents in January before falling more than 70% to close at a low of 24.5 cents last week, or 12% below its IPO price of 28 cents. At just six times price-to-earnings ratio at current levels, KTL shares are once again looking attractive. The stock has also declared its first-ever dividend of one cent per share.

CEO Wilson Tan is equally bullish about the growth prospects of KTL in the years to come. Despite the rising cost of steel and the global economic slowdown, Tan sees little downside

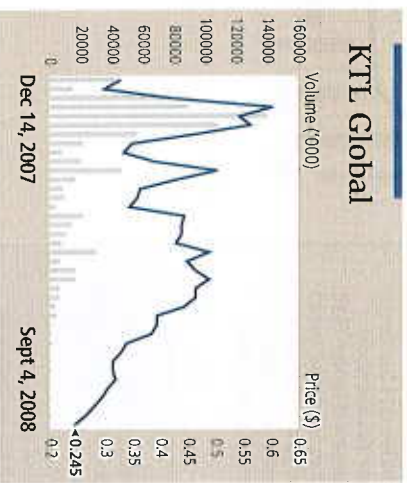
to the business. "There will be a lot of new vessels coming out between 2009 and 2011 and our clients are already working with us for all their new barges," says the 36-year-old Tan in a recent interview with *The Edge Singapore*. "We believe our offshore jobs will still be good in the next five years or so."

Based in Singapore, KTL supplies steel wire ropes used in rigging equipment, comprising assemblies of ropes and fittings used for mooring and lifting purposes. The ropes, which the company sources from suppliers in countries like India and South Korea, are cut, twisted and fitted according to the specifications of customers. The company also supplies and designs mooring equipment, including ropes, chains and anchors for vessels.

At any point in time, KTL has orders of about \$6 million for its mooring equipment, says chief financial officer Michael Law. Some of KTL's major customers include locally listed Ezra Holdings and Swiber Holdings as well as offshore giants McDermott Group and Swire Pacific Offshore.

Expanding to the Middle East

Just one of four companies in a highly specialised and niche industry — the others are Hendrik Veder of the Netherlands, Holloway Houston of the US and Singapore-based Franklin Offshore — KTL enjoys little competition. Leveraging on this, Tan says KTL is in negotiations to set up a rigging facility in the Middle East, which is set to become a hub for shallow-wa-



ter drilling projects. "There are many rigs and AHTS [anchor handling tug and supply] vessels stationed in Middle Eastern waters and we are getting a lot of business there, so we intend to set up another rigging shop in order to capture more market share," explains Tan, adding that the UAE facility should be operational by the end of next year.

In addition, KTL is expanding its product range to include the manufacture, design and assembly of winches for deep-water construction barges and oil rigs. "Expanding into the production of winches will help us because customers who buy the winches will also buy anchors, ropes and chains from us," adds Tan.

Ramping up capacity

Tan also expects higher demand for the wire ropes KTL provides as rig and vessel operators

typically replace damaged or worn-out ropes every one to five years. He is ramping up KTL's manufacturing capacity by gradually shifting the bulk of the operations from its current Changi facility to its new workshop in Tuas, which is double the size at 18,000 sq ft and is expected to be fully operational by next year.

The Tuas facility is being leased by KTL through a sale and leaseback arrangement which, CFO Law says, has significantly cut the company's gearing to "almost nil" and brought cash flow levels up from \$950,000 last year to \$5.5 million this year.

Although the price of steel, which is used to make wire ropes, has risen by at least 50% in the past year, Law says KTL has no problem passing the cost to customers, adding that they are sold at a mark-up of between 30% and 40%. "We are able to pass down the costs so successfully because wire ropes are just a fraction of the money companies spend compared with the rig or vessel itself, which could cost hundreds of thousands of dollars and more," Tan says.

"There are about 10 rigging companies in Singapore but they are mainly in the tanker and construction sectors. We are focused on a niche market, and we find that offshore is the market to be in to make more money," says Tan, who took over the family business from his father in 1997, fresh after graduating from university and steered it through the Asian financial crisis. Today, Tan and his father collectively own about 55% of KTL, which has a market value of about \$40 million. ■